

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Keego Harbor, Michigan</u>	County Oakland
Audit Date June 30, 2004	Opinion Date September 9, 2004	Date Accountant Report Submitted To State: December 3, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

City of Keego Harbor, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Keego Harbor, Michigan

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Independent Auditor's Report

To the City Council
City of Keego Harbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Keego Harbor, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor, Michigan as of June 30, 2004 and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Keego Harbor, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Keego Harbor, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 12, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

September 9, 2004

City of Keego Harbor, Michigan

Management's Discussion and Analysis

Overview of the Financial Statements

The City's annual report consists of this analysis (management's discussion and analysis), government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and, finally, other supplemental information.

During this fiscal year, the City fully implemented the Governmental Accounting Standards Board's (GASB) Statement No. 34. This accounting pronouncement, among other changes, adds government-wide financial statements, which were designed to provide a broad overview of the City's finances. The government-wide financial statements are presented on a full accrual basis of accounting, with an emphasis on measuring all economic resources and not just current financial resources, as measured in the individual fund statements. Two government-wide statements are provided.

One government-wide statement, the statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increases or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The other government-wide statement, the statement of activities, provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds with one column provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works; and fiduciary funds, which account for assets held for outside parties.

Reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences between the statement of net assets and the fund-based balance sheet are primarily related to inclusion of capital assets and long-term liabilities in the government-wide statement of net assets, which are not included in the fund-based balance sheet. The differences between the statement of activities and the statement of revenues, expenditures, and changes in fund balances primarily relate to the timing of reporting capital outlays and debt principal payments in the fund statements and a difference in the timing of the recognition of certain revenues and expenditures such as bond proceeds, accrued interest, and accrued employee leave time.

City of Keego Harbor, Michigan

Management's Discussion and Analysis (Continued)

Financial Position and Results of Operation for the City as a Whole

The following table shows, in a condensed format, the net assets of the City's governmental activities as of June 30, 2004:

Assets

Current assets	\$ 4,127,000
Noncurrent assets	<u>320,000</u>
Total assets	4,447,000

Liabilities

Current liabilities	611,000
Long-term liabilities	<u>1,645,000</u>
Total liabilities	<u>2,256,000</u>

Net Assets

Invested in capital assets - Net of related debt	320,000
Restricted	1,171,000
Unrestricted	<u>700,000</u>
Total net assets	<u>\$ 2,191,000</u>

The following table shows the changes of the net assets during the year ended June 30, 2004:

Revenue

Program revenue:	
Charges for services	\$ 329,000
Operating grants and contributions	161,000
Capital grants and contributions	49,000
General revenue:	
Property taxes	1,257,000
State-shared revenue	259,000
Unrestricted:	
investment earnings	29,000
Franchise fees	22,000
Miscellaneous	<u>18,000</u>
Total revenue	2,124,000

City of Keego Harbor, Michigan

Management's Discussion and Analysis (Continued)

Program Expenses

General government	\$ 549,000
Public safety	1,001,000
Public works	857,000
Community and economic development	109,000
Recreation and culture	86,000
Interest on long-term debt	47,000
	<hr/>
Total program expenses	2,649,000

Special item	<hr/> 843,000
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Change in Net Assets **\$ (1,368,000)**

The City had a decrease of \$1,368,000 in net assets in its governmental activities for the fiscal year ended June 30, 2004. The largest part of this decrease relates to the transfer of fire equipment to West Bloomfield Township Fire Department for approximately \$843,000 and the recording of the estimated final liability related to the Cass Lake Road Project in the amount of \$359,000. Depreciation accounted for approximately \$28,000 of the decrease and the remaining decline was spread among various activities.

Governmental Activities

Over the last few years, the City has experienced steady growth in tax revenues which have been capped by State statute since 1994 at the lesser of 5 percent or the rate of inflation. Expenditures in the General Fund in 2004 are not comparable to prior years because for a time, the Building Inspection Services and Parks and Recreation were tracked outside of the General Fund. During the year ended June 30, 2004, however, administration decided to bring these revenue and expenditure accounts into the General Fund.

General Fund expenditures in 2004 exceeded revenue by \$187,593, which compares to the deficit in 2003 of \$131,000 after including losses in Building and Parks and Recreation. The significant shortfall between expenditures and revenue in 2004 had several contributing factors:

\$30,000	Council approved an enhanced retirement (MERS) benefit
21,000	Reduction in State revenue sharing
17,000	Reduction in 48 th District Court revenue for police citations
13,000	Under-budgeted for police dispatch services
56,000	Additional shortfall in building inspections, due to increased activity and inadequate fee structure to cover services

City of Keego Harbor, Michigan

Management's Discussion and Analysis (Continued)

\$24,300	Additional shortfall in planning, due to same as above
67,000	Overestimated property tax revenue

These issues were corrected in the preparation of the 2004-2005 budget. Estimates for property tax and cost of services were properly researched. Also, during the latter part of last year, the Council approved increases in fees for police, building, and planning, which had not been adjusted in many years. The City can still expect a shortfall in the next fiscal year, but not of the magnitude of last year. The Council will also consider cost-cutting and revenue enhancement measures to minimize the impact in the future.

State-shared revenues, statutorily designated to support local community services, have historically accounted for approximately 20 percent of the City's general operating revenues. These funds have been partially captured by the State of Michigan for the last several years for use in funding State expenditures. This fiscal year, the City received \$21,000 less in State-shared revenues than in fiscal year 2003, for a total reduction of \$153,700 since fiscal year 2000. Further, with the drop in interest rates, the City's investments earned approximately \$11,000 less than in 2003.

The City of Keego Harbor maintains a cash surplus sufficient to bridge any potential shortfalls in current year revenues or increases in ordinary but unanticipated current year expenditures. Prudent financial planning places the City in a sound financial position with adequate cash reserves. The combination of revenue shortfall and expenditure overages in fiscal year 2004 totaled \$187,593, which reduced the fund balance. Thus, whereby the City started the fiscal year with \$704,403 in fund balance, it was reduced to \$516,810 by year end. Clearly, this is a trend that cannot continue without threatening the City's financial position. As stated earlier, the City staff and Council are examining ways to stem the tide until new developments add to the property tax base.

The City's Funds

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages.

Analysis of Individual Funds

Of the City's governmental funds, the General, Major Streets, TIFA Capital Improvement, Capital Projects, and TIFA Funds account for all significant expenditures.

The General Fund ended the fiscal year with a reduction to its fund balance in the amount of \$187,593. Major factors related to this reduction were discussed earlier.

City of Keego Harbor, Michigan

Management's Discussion and Analysis (Continued)

The Major Streets ended the fiscal year with fund balance of \$501,924.

The TIFA Capital Improvements ended the fiscal year with fund balance of \$1,349,898.

The Capital Projects concluded fiscal year 2004 with fund balance of \$558,415.

The TIFA ended the fiscal year with fund balance of \$488,154.

During fiscal year 2004, the Tax Increment Financing Authority (TIFA) acquired a capital improvement bond in the amount of \$1.4 million, minus processing fees. The bond will be used to pay the final bill for Cass Lake Road street widening, the City's matching portion of an ISTE grant for streetscape improvements on Cass Lake Road, and a \$620,000 streetlight project in the same area.

Bond payments will be made out of the TIFA's annual tax capture. The City and the TIFA are looking forward to resolving two contingency funds. The TIFA has a fund balance of \$488,154 after recording the estimated final liability for the Cass Lake Road project. This fund balance is set aside pending the resolution of school tax capture. Favorable decisions in these cases could free up hundreds of thousands of dollars, though the money can only be used for improvements in the TIFA District.

General Operating Fund Budget Highlights

The City's original and amended general operating budget changed significantly during the fiscal year. Throughout the annual budget process, the City completes an extensive review of the current year budget, culminating in budget amendments to appropriate the revised expenditure estimates. The original budget for 2003-2004 was prepared by a City Manager and Treasurer, both of whom left the employ of the City soon thereafter. As the year progressed, it became apparent to the new administration that adjustments in several revenue and expenditure accounts were needed. The amendments were prepared and approved by Council several times during the year. Expenditures were originally budgeted at \$1,666,740, but ended at \$1,857,048 (95 percent of the amended budget). Revenue estimates started at \$1,646,740, and ended at \$1,669,455 (101 percent of the original budget, but only 94 percent of the amended budget).

Capital Asset and Long-term Debt Activity

Capital Assets

There were no major capital asset or infrastructure additions in governmental funds for the year ended June 30, 2004; however, an estimated final liability for the Cass Lake Road project was recorded in the TIFA. The project was completed in prior fiscal years; however, the City has been awaiting a final accounting from the Road Commission for Oakland County.

City of Keego Harbor, Michigan

Management's Discussion and Analysis (Continued)

Long-term Debt

New debt issued by the City during 2003-2004 consisted of a general obligation bond issue for Cass Lake Road improvements in the TIFA District in the amount of \$1,400,000.

Economic Factors and Next Year's Budgets and Rates

At this writing, the City is looking forward to the completion of several very significant developments: 69 new single-family homes at the old soccer field, along with six new homes on Portman, a 28,000 sq. ft. mixed-use development on Orchard Lake Road at Maddy Lane, and 20 single-family attached homes on Cass Lake Road. The combination of these new developments on the tax rolls will add about \$165,000 to the City's revenue between this year and next. Additional projects are slated for the City, but are within the TIFA District (new taxes are captured). A strong economic development program will be essential to funding the City's public services in the future.

Keego Harbor is an under-developed small city that depends on growth in property values to offset growth in expenditures supported by taxes and to offset reductions in State-shared revenues. Property taxes account for 65 percent of General Fund revenues. Property tax value grew by 4 percent from fiscal 2003 to 2004. State-shared revenues, which dropped another \$21,000 in 2003, are at risk of further deterioration due to the financial condition and priorities of the State.

The City has budgeted for pension contributions, employee and retiree health care costs, and general insurance costs in the 2004-2005 fiscal year based on the best information known at the time. Pension costs actually decreased by 2 percent during the last year, but it is reasonable to expect up to 10 percent increases in health care and insurance costs.

The City has experienced no specific events which it believes will materially impact the finances of the City. However, certain long-term trends, such as capped property tax revenues and shrinking State-shared revenues, will have a direct impact on the City's ability to continue current service levels, unless the City aggressively seeks new and redevelopment of its downtown and aging housing stock.

Contacting the City's Financial Management

This financial report is designed to provide accountability of our stewardship of the resources provided by our citizens, taxpayers, and customers and to provide financial information to the City's investors and creditors. If you have any questions about this report or need additional financial information, contact the City Manager or City Treasurer at City Hall, P.O. Box 665, Keego Harbor, Michigan 48320.

City of Keego Harbor, Michigan

Governmental Activities Statement of Net Assets June 30, 2004

Assets

Cash and cash equivalents (Note 2)	\$ 54,555
Investments (Note 2)	2,612,295
Receivables - Net (Note 3)	75,468
Prepaid costs and other assets	29,935
Restricted assets (Note 2)	1,355,154
Capital assets - Net (Note 4):	
Depreciable	167,774
Nondepreciable	151,901
Total assets	4,447,082

Liabilities

Accounts payable	42,979
Accrued and other liabilities	47,299
Due to other governmental units	917
Estimated liability for final project costs (Note 4)	359,000
Bond deposits	98,645
Noncurrent liabilities (Note 6):	
Bonds payable, due within one year	30,000
Bonds payable, due in more than one year	1,630,000
Compensated absences, due within one year	32,251
Compensated absences, due in more than one year	15,177
Total liabilities	2,256,268

Net Assets

Invested in capital assets - Net of related debt	319,675
Restricted:	
Streets and highways	624,617
Debt service	41,138
Capital projects in TIFA district	488,154
Garbage collection	8,254
Beautification	1,388
Police Department Community Events	2,719
Carillion	1,786
Optomist park donation	2,883
Fran Leaf donation	474
Unrestricted	699,726
Total net assets	<u>\$ 2,190,814</u>

City of Keego Harbor, Michigan

Governmental Activities Statement of Activities Year Ended June 30, 2004

	Program Revenues				Net Revenue (Expense) and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government - Governmental Activities
Functions/Programs					
Primary government - governmental activities					
General government	\$ 548,714	\$ 31,649	\$ 264	\$ -	\$ (516,801)
Public safety	1,001,144	116,357	-	-	(884,787)
Public works and streets	857,492	168,602	153,942	27,694	(507,254)
Community and economic development	109,038	11,853	6,892	21,070	(69,223)
Recreation and culture	85,700	614	15	-	(85,071)
Interest on long-term debt	46,531	-	-	-	(46,531)
Total primary government - governmental activities	<u>\$ 2,648,619</u>	<u>\$ 329,075</u>	<u>\$ 161,113</u>	<u>\$ 48,764</u>	(2,109,667)
General revenues:					
Property taxes					1,256,626
State-shared revenues					259,304
Unrestricted investment earnings					28,896
Franchise fees					21,838
Miscellaneous					<u>17,830</u>
Total general revenues					1,584,494
Special item - Transfer of equipment to West Bloomfield Township Fire Department					<u>(842,615)</u>
Change in Net Assets					(1,367,788)
Net Assets - Beginning of year					<u>3,558,602</u>
Net Assets - End of year					<u>\$ 2,190,814</u>

City of Keego Harbor, Michigan

	Major Funds				
	General	Major Streets	TIFA Capital	Capital	TIFA
	Fund	Fund	Improvements	Projects	Fund
	Fund	Fund	Fund	Fund	Fund
Assets					
Cash and cash equivalents	\$ 27,001	\$ 30,946	\$ (382)	\$ 10,474	\$ (57,936)
Investments	554,361	455,211	-	547,941	906,745
Receivables - Net	59,950	18,000	-	-	12,018
Prepaid costs and other assets	29,935	-	-	-	-
Restricted assets	-	-	1,355,154	-	-
Due from other funds (Note 5)	23,238	-	-	-	-
Total assets	<u>\$ 694,485</u>	<u>\$ 504,157</u>	<u>\$ 1,354,772</u>	<u>\$ 558,415</u>	<u>\$ 860,827</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 36,030	\$ 63	\$ 4,874	\$ -	\$ 1,655
Accrued and other liabilities	32,687	-	-	-	-
Due to other funds (Note 5)	-	1,800	-	-	-
Due to other governmental units	-	370	-	-	-
Estimated liability for final project costs on Cass Lake Road	-	-	-	-	359,000
Deferred revenue	10,313	-	-	-	12,018
Bond deposits	98,645	-	-	-	-
Total liabilities	177,675	2,233	4,874	-	372,673
Fund Balances					
Reserved for:					
Optimist parks donation	2,883	-	-	-	-
Fran Leaf donation	474	-	-	-	-
Unreserved, reported in:					
General Fund	513,453	-	-	-	-
Special Revenue Funds	-	501,924	-	-	-
Debt Service Fund	-	-	-	-	-
Capital Projects Funds	-	-	1,349,898	558,415	488,154
Total fund balances	<u>516,810</u>	<u>501,924</u>	<u>1,349,898</u>	<u>558,415</u>	<u>488,154</u>
Total liabilities and fund balances	<u>\$ 694,485</u>	<u>\$ 504,157</u>	<u>\$ 1,354,772</u>	<u>\$ 558,415</u>	<u>\$ 860,827</u>

**Governmental Funds
Balance Sheet
June 30, 2004**

Nonmajor Governmental Funds	Total Governmental Funds
\$ 44,452	\$ 54,555
148,037	2,612,295
7,831	97,799
-	29,935
-	1,355,154
-	23,238
<u>\$ 200,320</u>	<u>\$ 4,172,976</u>
\$ 357	\$ 42,979
-	32,687
21,438	23,238
547	917
-	359,000
-	22,331
-	98,645
<u>22,342</u>	<u>579,797</u>
-	2,883
-	474
-	513,453
136,840	638,764
41,138	41,138
-	2,396,467
<u>177,978</u>	<u>3,593,179</u>
<u>\$ 200,320</u>	<u>\$ 4,172,976</u>

City of Keego Harbor, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended June 30, 2004

Fund Balance - Total Governmental Funds	\$ 3,593,179
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	319,675
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Long-term liabilities not due and payable in the current
period and are not reported in the funds, including:

Compensated absences	(47,428)
Interest payable	(14,612)
Bonds payable	<u>(1,660,000)</u>

Net Assets - Governmental Activities	<u>\$ 2,190,814</u>
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City of Keego Harbor, Michigan

	Major Funds				
	General Fund	Major Streets Fund	TIFA Capital Improvements Fund	Capital Projects Fund	TIFA Fund
Revenue					
Property taxes	\$ 1,084,770	\$ -	\$ -	\$ -	\$ 122,114
Licenses and permits	131,889	-	-	-	-
Federal sources	18,466	-	-	-	-
State sources	263,235	105,967	-	-	-
County sources	19,482	-	-	-	-
Fines and forfeitures	21,745	-	-	-	-
Interest and rent	75,388	2,589	1,703	3,648	5,014
Donations	1,376	-	-	1,000	1,901
Other	53,104	-	-	-	-
Total revenue	1,669,455	108,556	1,703	4,648	129,029
Expenditures					
General government	547,088	-	-	-	-
Public safety	992,317	-	-	-	-
Public works	132,534	36,695	30,805	-	429,869
Community and economic development	83,679	-	-	-	-
Recreation and culture	83,231	-	-	-	-
Debt service	-	-	-	-	-
Other expenditures	12,329	-	-	19,485	-
Total expenditures	1,851,178	36,695	30,805	19,485	429,869
Excess of Revenue Over (Under) Expenditures	(181,723)	71,861	(29,102)	(14,837)	(300,840)
Other Financing Sources (Uses)					
Transfers in (Note 5)	-	-	-	-	-
Transfers out (Note 5)	(5,870)	(15,716)	-	-	(29,667)
Bond discount	-	-	(21,000)	-	-
Issuance of debt	-	-	1,400,000	-	-
Total other financing sources (uses)	(5,870)	(15,716)	1,379,000	-	(29,667)
Net Change in Fund Balances	(187,593)	56,145	1,349,898	(14,837)	(330,507)
Fund Balances - Beginning of year	704,403	445,779	-	573,252	818,661
Fund Balances - End of year	<u>\$ 516,810</u>	<u>\$ 501,924</u>	<u>\$ 1,349,898</u>	<u>\$ 558,415</u>	<u>\$ 488,154</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2004

Other Non- major Governmental Funds	Total Governmental Funds
\$ 154,378	\$ 1,361,262
-	131,889
-	18,466
46,075	415,277
-	19,482
-	21,745
2,138	90,480
5,907	10,184
<u>118</u>	<u>53,222</u>
208,616	2,122,007
-	547,088
-	992,317
205,680	835,583
-	83,679
-	83,231
44,710	44,710
<u>3,780</u>	<u>35,594</u>
<u>254,170</u>	<u>2,622,202</u>
(45,554)	(500,195)
51,253	51,253
-	(51,253)
-	(21,000)
<u>-</u>	<u>1,400,000</u>
<u>51,253</u>	<u>1,379,000</u>
5,699	878,805
<u>172,279</u>	<u>2,714,374</u>
<u>\$ 177,978</u>	<u>\$ 3,593,179</u>

City of Keego Harbor, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 878,805

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	5,874
Depreciation on capital assets reported as part of governmental activities	(27,948)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	30,000
Bond proceeds are not reported as financing sources on the statement of activities	(1,400,000)
Accrued interest payable is recorded when due in the governmental funds	(10,821)
Increases in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	(1,083)
Special item for transfer of equipment to West Bloomfield Township Fire Department is not reported in the governmental funds	(842,615)

Change in Net Assets of Governmental Activities \$ (1,367,788)

City of Keego Harbor, Michigan

Fiduciary Fund Statement of Assets and Liabilities June 30, 2004

	<u>Agency Fund</u>
Assets - Investments - U.S. government securities	<u>\$ 233</u>
Liabilities - Due to other governmental units	<u>\$ 233</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Keego Harbor, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Keego Harbor, Michigan:

Reporting Entity

The City of Keego Harbor, Michigan is governed by an elected five-member council. The accompanying financial statements present the City and its component unit, the City of Keego Harbor Tax Increment Financing Authority, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations.

The City of Keego Harbor Tax Increment Financing Authority is governed by a board that is appointed by the Keego Harbor City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and expand a road on behalf of the City's Major Streets Fund.

Jointly Governed Organization - The City is a member of the Tri-City Fire Department, which provides fire protection services to the residents of the City of Keego Harbor, the City of Sylvan Lake, and the City of Orchard Lake. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$159,000 for its operations. The contract for fiscal year 2005 requires the City to make a \$194,250 contribution.

Effective July 1, 2003, the Tri-City Fire Department and the participating communities entered into an agreement with the West Bloomfield Township Fire Department. The agreement provides that all of the assets of the Tri-City Fire Department, including the fire station, trucks, and all equipment, be transferred to the Township. The Township, in turn, has agreed to provide expanded fire service to the member communities, including advanced life support on a 24 hour per day, seven day per week basis.

In essence, this agreement means that the City's equity in the Tri-City Fire Department has been relinquished in exchange for future fire and life support services. Accordingly, the City has recorded a "special item" in the statement of activities to reflect this transfer of equity.

The participating communities will continue to make quarterly payments to the Tri-City Fire Department, which will in turn pay the West Bloomfield Township Fire Department.

Note I - Summary of Significant Accounting Policies (Continued)

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Tri-City Fire Department can be obtained from the administrative offices at 3300 Orchard Lake Road, Orchard Lake, Michigan.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. The governmental activities shown on the government-wide financial statements are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund accounts for the resources of state gas and weights revenues that are restricted for use on major streets.

Capital Project Fund - The Capital Project Fund accounts for construction activity funded by general revenues of the City.

Tax Increment Financing Fund (TIFA) - The TIFA accounts for the financing of a road on behalf of the City's Major Streets Fund. The activity is approved by the TIFA board.

TIFA Capital Improvement Fund - The TIFA Capital Improvement Fund accounts for construction activity funded by the Capital Improvement Bonds.

Additionally, the City reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Debt Service Funds - Debt Service Funds are used to account for the proceeds of principal, interest, and expenditures in connection with certain long-term debt obligations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Projects Funds - Capital Projects Funds are used to account for the development of capital facilities other than those financed by the operations of an Enterprise Fund.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1 of the following year, at which time penalties and interest are assessed.

The 2003 taxable valuation of the City totaled \$76.6 million (a portion of which is abated and a portion of which is captured by the TIFA), on which taxes levied consisted of 13.5039 mills for operating purposes and .3 mills for debt service. This resulted in approximately \$1 million for operating and approximately \$23,000 for debt service. These amounts are recognized in the respective General and Debt Service Funds as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund and TIFA Fund is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Costs and Other Assets - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The City's remaining bond proceeds are set aside for various upcoming debt service payments. These amounts have been classified as restricted assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and vehicles, are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	25 to 40 years
Furnishings, fixtures, and equipment	5 to 10 years
Vehicles	5 to 10 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay and a portion of sick leave is accrued when earned in the government-wide financial statements, since the City has a policy to pay all vacation time and 25 percent of accumulated sick time when an employee separates from service with the City.

A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since July 1, 2000 is as follows:

Cumulative shortfall at July 1, 2003	\$ (2,127)
Current year building permit revenue	\$ 93,285
Related expenses - Direct costs	<u>(154,814)</u>
Current year shortfall	<u>(61,529)</u>
Cumulative shortfall at June 30, 2004	<u>\$ (63,656)</u>

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; local government investment pools; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Deposits and Investments (Continued)

The City has designated two banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all of the investments allowable by the State statutory authority as listed above.

The City of Keego Harbor, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

Financial Statement Classification	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 54,555	\$ -	\$ 54,555
Investments	2,612,295	233	2,612,528
Restricted assets	1,355,154	-	1,355,154
Total	<u>\$ 4,022,004</u>	<u>\$ 233</u>	<u>\$ 4,022,237</u>

The negative cash balances in the TIFA and TIFA Capital Improvement Funds do not represent overdrawn bank accounts. The City has a common checking account used to pay for the bills of all funds. The negative cash in these funds represents advances made by the City on behalf of TIFA and TIFA Capital Improvement Funds. Investment account balances of these funds will be applied toward the negative cash balances next year.

The breakdown between deposits and investments for the City is as follows:

GASB Statement No. 3 Classification	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 598,573
Investments in securities and similar vehicles	3,423,314
Petty cash or cash on hand	350
Total	<u>\$ 4,022,237</u>

Note 2 - Deposits and Investments (Continued)

Deposits

The bank balance of the City's deposits is \$641,528, of which approximately \$300,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

Bank investment pools	\$ 2,598,369
Interlocal agreement investment pool	<u>824,945</u>
Total	<u>\$ 3,423,314</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools and interlocal agreement investment pool are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Receivables/Deferred Revenue

Receivables as of year end for the City's individual major funds and the nonmajor funds, in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Streets Fund	TIFA Fund	Nonmajor and Other Funds	Total
Receivables:					
Taxes - Delinquent personal	\$ 10,313	\$ -	\$ 12,018	\$ -	\$ 22,331
Accounts	10,170	-	-	-	10,170
Intergovernmental	<u>39,467</u>	<u>18,000</u>	<u>-</u>	<u>7,831</u>	<u>65,298</u>
Total receivables	59,950	18,000	12,018	7,831	97,799
Less allowance for uncollectibles	<u>(10,313)</u>	<u>-</u>	<u>(12,018)</u>	<u>-</u>	<u>(22,331)</u>
Net receivables	<u>\$ 49,637</u>	<u>\$ 18,000</u>	<u>\$ -</u>	<u>\$ 7,831</u>	<u>\$ 75,468</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. The government-wide statements record an allowance for receivables that are uncollectible.

Note 4 - Capital Assets

Capital asset activity of the City's governmental activities was as follows:

	Balance July 1, 2003	Additions	Balance June 30, 2004
Capital assets not being depreciated - Land	\$ 151,901	\$ -	\$ 151,901
Capital assets being depreciated:			
Buildings and building improvements	152,057	-	152,057
Furnishings, fixtures, and equipment	123,476	5,874	129,350
Vehicles	<u>146,184</u>	<u>-</u>	<u>146,184</u>
Subtotal	421,717	5,874	427,591
Accumulated depreciation:			
Buildings and building improvements	107,080	3,964	111,044
Furnishings, fixtures, and equipment	59,769	10,157	69,926
Vehicles	<u>65,020</u>	<u>13,827</u>	<u>78,847</u>
Subtotal	<u>231,869</u>	<u>27,948</u>	<u>259,817</u>
Net capital assets being depreciated	<u>189,848</u>	<u>(22,074)</u>	<u>167,774</u>
Net capital assets	<u>\$ 341,749</u>	<u>\$ (22,074)</u>	<u>\$ 319,675</u>

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 1,944
Public safety	1,319
Public works	22,216
Recreation and culture	<u>2,469</u>

Total governmental activities	<u>\$ 27,948</u>
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Construction Commitments - The City and the Road Commission for Oakland County completed a project related to improvements made to Cass Lake Road. At year end, the final accounting for this project is not complete. The City has recorded a liability of approximately \$359,000 for the project based on its best estimate from information provided by the Road Commission for Oakland County.

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Major Streets Fund	\$ 1,800
General Fund	Local Streets Fund	<u>21,438</u>
Total		<u>\$ 23,238</u>

Interfund balances represent routine and temporary cash flow assistance.

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Parks and Recreation	\$ 3,243
General Fund	Building Inspection	2,127
General Fund	Beautification	500
Major Streets Fund	Local Streets Fund	15,716
TIFA	Cass Lake Road Streetscape	14,076
TIFA	Cass Lake Road Project	15,591
Total		<u>\$ 51,253</u>

The transfers from the General Fund to the Parks and Recreation, Building Inspection, and Beautification Funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations; the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51; the transfer from the TIFA Fund to the Cass Lake Road Streetscape and Cass Lake Road Project Funds represent the movement of resources to be used to finance these programs in accordance with Board authorizations.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
Tri-City Fire Station Bonds:						
Amount of issue: \$460,000		\$30,000-				
Maturing through 2009	5.05%-5.25%	\$55,000	\$ 290,000	\$ (30,000)	\$ 260,000	\$ 30,000
Capital Improvement Bonds:						
Amount of issue: \$1,400,000		\$35,000-				
Maturing through 2022	3.50%-4.60%	\$135,000	-	1,400,000	1,400,000	-
Total governmental activities			<u>\$ 290,000</u>	<u>\$ 1,370,000</u>	<u>\$ 1,660,000</u>	<u>\$ 30,000</u>

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2005	\$ 30,000	\$ 67,080	\$ 97,080
2006	75,000	70,180	145,180
2007	85,000	66,855	151,855
2008	100,000	62,824	162,824
2009	110,000	58,130	168,130
2010-2014	425,000	231,094	656,094
2015-2019	475,000	145,970	620,970
2020-2022	360,000	34,270	394,270
Total	<u>\$ 1,660,000</u>	<u>\$ 736,403</u>	<u>\$ 2,396,403</u>

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority for claims related to general liability.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Defined Benefit Pension Plan

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by City personnel policy and by negotiation with the City's competitive bargaining units and requires no contribution from the City employees.

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost of \$96,164 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension costs (APC)	\$ 31,551	\$ 49,576	\$ 96,164
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Keego Harbor, Michigan

Notes to Financial Statements June 30, 2004

Note 8 - Defined Benefit Pension Plan (Continued)

	Actuarial Valuation as of December 31		
	2001	2002	2003
Actuarial value of assets	\$ 1,261,021	\$ 1,278,011	\$ 1,390,051
Actuarial accrued liability (AAL) (entry age)	\$ 1,472,387	\$ 1,550,351	\$ 2,027,587
Unfunded AAL (UAAL)	\$ 211,310	\$ 272,340	\$ 637,536
Funded ratio	86%	82%	69%
Covered payroll	\$ 528,156	\$ 555,463	\$ 567,030
UAAL as a percentage of covered payroll	40%	49%	112%

Note 9 - Postemployment Benefits

The City provides health care benefits to all eligible full-time employees upon retirement, in accordance with labor contracts and City policy. Currently, three retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as insurance premiums become due; during the year, this amounted to approximately \$11,900.

Note 10 - Subsequent Events

Subsequent to year end, the City moved locations and began leasing office space in a commercial development. The lease term is for a period of 14 months with total lease payments of approximately \$40,000.

Note 11 - Contingent Liabilities

The City is currently involved in litigation with several parties related to the Goose Island Brewery, regarding alleged civil rights violations and taking of property. Regarding the first item, the outcome is not determinable as this time; however, any losses would be covered by the City's insurance carrier. Regarding the second item, this item is not determinable or potential loss measurable, and this loss would not be covered by the City's insurance carrier.

Note 11 - Contingent Liabilities (Continued)

The City is in discussions with the State Tax Commission regarding the amount of taxes captured by the TIFA from local schools. The State contends that approximately \$540,000 of funds captured by the TIFA was not eligible and needs to be returned to the schools. The City believes it is eligible to capture these monies and is currently bringing the case to the Commission; therefore, no liability has been recorded.

The City is a defendant in several property tax appeal lawsuits. The amount of the liability to the City is indeterminable as of year end; however, an unfavorable outcome could have a material impact on the City's financial position. No provision has been made in the accompanying financial statements for potential liabilities, if any, which may arise from these remaining suits and asserted claims.

Note 12 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City of Keego Harbor has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$133,000 to reflect the historical cost of the City's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations totaling \$1,660,000 previously reported in the General Long-term Debt Account Group.

Required Supplemental Information

City of Keego Harbor, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Taxes	\$ 1,134,400	\$ 1,071,044	\$ 1,084,770	\$ 13,726
License, permits, and fees	48,900	51,715	38,604	(13,111)
Federal sources	11,700	32,882	18,466	(14,416)
State sources	290,550	277,654	263,235	(14,419)
County sources	53,000	19,482	19,482	-
Charges for services and sales	5,280	90,855	93,285	2,430
Fines and forfeitures	32,500	24,265	21,745	(2,520)
Interest and rent	55,000	80,305	75,388	(4,917)
Other revenue	2,100	68,880	54,480	(14,400)
Transfers from other funds	13,310	58,760	-	(58,760)
Total revenues	1,646,740	1,775,842	1,669,455	(106,387)
Expenditures				
General government:				
Legislative - City council	12,590	10,992	16,026	(5,034)
Executive - City manager	89,200	123,911	128,874	(4,963)
Financial and tax administration:				
Board of review	410	410	255	155
Assessment services	25,400	25,400	24,826	574
Clerk-Treasurer	240,240	242,330	243,528	(1,198)
Other general government:				
Elections	1,250	1,936	2,429	(493)
Legal services	31,810	66,907	71,279	(4,372)
Buildings and grounds	57,600	46,275	59,871	(13,596)
Public safety:				
Police	655,080	653,774	677,123	(23,349)
Fire protection services	159,150	159,149	159,149	-
Inspection services	12,450	165,984	156,045	9,939
Public works:				
Department of public works	125,320	180,496	96,723	83,773
Lighting	40,480	40,480	35,811	4,669
Community and economic development:				
Community development	3,000	9,940	2,551	7,389
Social services - Public services aid	8,700	16,942	11,734	5,208
Planning	34,800	35,350	58,118	(22,768)
Zoning	6,000	11,154	11,276	(122)
Recreation and culture:				
Library	33,600	33,600	33,089	511
Parks and recreation	-	57,897	50,142	7,755
Other functions (NOC):				
Retiree health insurance	13,120	13,120	12,329	791
Contingency	20,000	20,000	-	20,000
Transfers to other funds	96,540	45,950	5,870	40,080
Total expenditures	1,666,740	1,961,997	1,857,048	104,949
Excess of Expenditures Over Revenues	(20,000)	(186,155)	(187,593)	1,438
Fund Balance - Beginning of year	704,403	704,403	704,403	-
Fund Balance - End of year	\$ 684,403	\$ 518,248	\$ 516,810	\$ 1,438

City of Keego Harbor, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
State sources	\$ 93,600	\$ 93,600	\$ 105,967	\$ 12,367
Interest	2,500	2,500	2,589	89
Total revenues	96,100	96,100	108,556	12,456
Expenditures				
Major street activities	147,560	65,051	36,695	28,356
Transfers to other funds	60,000	83,400	15,716	67,684
Total expenditures	207,560	148,451	52,411	96,040
Excess of Revenues Over (Under) Expenditures	(111,460)	(52,351)	56,145	(108,496)
Fund Balance - Beginning of year	445,779	445,779	445,779	-
Fund Balance - End of year	<u>\$ 334,319</u>	<u>\$ 393,428</u>	<u>\$ 501,924</u>	<u>\$ (108,496)</u>

City of Keego Harbor, Michigan

Note to Required Supplemental Information June 30, 2004

Budgetary Information - The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds with the following exceptions:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- The Carillon Fund and Police Department Community Events Fund were not budgeted in the current year.

The budget statements (Budgetary Comparison Schedule - General Fund and Major Streets Fund) are presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement to the operating statement (statement of revenue, expenditures, and changes in fund balances):

	General Fund		Major Streets Fund	
	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 1,669,455	\$ 1,851,178	\$ 108,556	\$ 36,695
Operating transfers budgeted as revenue and expenditures	-	5,870	-	15,716
Amounts per budget statement	<u>\$ 1,669,455</u>	<u>\$ 1,857,048</u>	<u>\$ 108,556</u>	<u>\$ 52,411</u>

The budget for the General Fund has been adopted on an activity basis; the budget for the Special Revenue Funds and Debt Service Funds has been adopted in total; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the nonmajor fund budgets as adopted by the City Council is available at the City offices.

City of Keego Harbor, Michigan

Note to Required Supplemental Information June 30, 2004

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Keego Harbor, Michigan incurred expenditures that were in excess of the amounts budgeted. Expenditures in excess of budget are as follows:

	Budget	Actual
General Fund:		
General government:		
Legislative - City Council	\$ 10,992	\$ 16,026
Executive - City manager	123,911	128,874
Clerk-Treasurer	242,330	243,528
Other general government:		
Elections	1,936	2,429
Legal services	66,907	71,279
Buildings and grounds	46,275	59,871
Public safety- Police	653,774	677,123
Community and economic development:		
Planning	35,350	58,118
Zoning	11,154	11,276

Other Supplemental Information

City of Keego Harbor, Michigan

Nonmajor Special Revenue Funds							
	Local Streets	Beauti- fication	Parks and Recreation	Building Inspection	Garbage Collection	Police Department Community Events	Carillon
Assets							
Cash and equivalents	\$ 28,348	\$ 1,745	\$ -	\$ -	\$ 8,254	\$ 2,719	\$ 1,786
Investments	108,499	-	-	-	-	-	-
Receivables - Net	7,831	-	-	-	-	-	-
Total assets	<u>\$ 144,678</u>	<u>\$ 1,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,254</u>	<u>\$ 2,719</u>	<u>\$ 1,786</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ -	\$ 357	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	21,438	-	-	-	-	-	-
Due to other governmental units	547	-	-	-	-	-	-
Total liabilities	21,985	357	-	-	-	-	-
Fund Balances - Undesignated	<u>122,693</u>	<u>1,388</u>	<u>-</u>	<u>-</u>	<u>8,254</u>	<u>2,719</u>	<u>1,786</u>
Total liabilities and fund balances	<u>\$ 144,678</u>	<u>\$ 1,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,254</u>	<u>\$ 2,719</u>	<u>\$ 1,786</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Nonmajor Debt Service Funds		Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
Fire Bonds	TIFA Debt Service	Cass Lake Road Streetscape	Cass Lake Road Project	
\$ 1,600	\$ -	\$ -	\$ -	\$ 44,452
38,715	823	-	-	148,037
-	-	-	-	7,831
<u>\$ 40,315</u>	<u>\$ 823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200,320</u>
\$ -	\$ -	\$ -	\$ -	\$ 357
-	-	-	-	21,438
-	-	-	-	547
-	-	-	-	22,342
40,315	823	-	-	177,978
<u>\$ 40,315</u>	<u>\$ 823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200,320</u>

City of Keego Harbor, Michigan

	Nonmajor Special Revenue Funds						
	Local Streets	Beautifi- cation	Parks and Recreation	Building Inspection	Garbage Collection	Police Department Community Events	Carillon
Revenue							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Refuse collection	-	-	-	-	131,400	-	-
State sources	46,075	-	-	-	-	-	-
Interest	948	-	-	-	-	-	-
Donations	-	751	-	-	-	5,141	15
Other	-	-	-	-	118	-	-
Total revenue	47,023	751	-	-	131,518	5,141	15
Expenditures							
Winter maintenance	12,183	-	-	-	-	-	-
Routine maintenance	42,670	-	-	-	-	-	-
Equipment rentals	16,442	-	-	-	-	-	-
Administrative fees and other	4,609	-	-	-	-	-	-
Public works	-	2,094	-	-	127,682	-	-
Debt service	-	-	-	-	-	-	-
Community activity	-	-	-	-	-	3,780	-
Total expenditures	75,904	2,094	-	-	127,682	3,780	-
Excess of Revenue Over (Under) Expenditures	(28,881)	(1,343)	-	-	3,836	1,361	15
Other Financing Sources -							
Transfers in	15,716	500	3,243	2,127	-	-	-
Net Change in Fund Balances	(13,165)	(843)	3,243	2,127	3,836	1,361	15
Fund Balances (Deficit) -							
Beginning of year	135,858	2,231	(3,243)	(2,127)	4,418	1,358	1,771
Fund Balances - End of year	\$ 122,693	\$ 1,388	\$ -	\$ -	\$ 8,254	\$ 2,719	\$ 1,786

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

Nonmajor Debt Service Funds		Nonmajor Capital Project Funds		Total Nonmajor Governmental Funds
Fire Bonds	TIFA Debt Service	Cass Lake Road Streetscape	Cass Lake Road Project	
\$ 22,978	\$ -	\$ -	\$ -	\$ 22,978
-	-	-	-	131,400
-	-	-	-	46,075
367	823	-	-	2,138
-	-	-	-	5,907
-	-	-	-	118
23,345	823	-	-	208,616
-	-	-	-	12,183
-	-	-	-	42,670
-	-	-	-	16,442
-	-	-	-	4,609
-	-	-	-	129,776
44,710	-	-	-	44,710
-	-	-	-	3,780
44,710	-	-	-	254,170
(21,365)	823	-	-	(45,554)
-	-	14,076	15,591	51,253
(21,365)	823	14,076	15,591	5,699
61,680	-	(14,076)	(15,591)	172,279
<u>\$ 40,315</u>	<u>\$ 823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 177,978</u>

September 9, 2004

Honorable Mayor and Members
of the City Council
City of Keego Harbor
2025 Beechmont Street
P.O. Box 665
Keego Harbor, MI 48320-0665

Dear Mayor and Council Members:

We have recently completed our audit of the City's financial statements for the year ended June 30, 2004. As a result of our audit, we noted items considered to be reportable conditions and as well as other items we feel warrant your consideration.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As can be seen in the City's financial report, the General Fund's Fund Balance decreased during the most recent year by \$187,593 from \$704,403 to \$516,810. Although this level of fund balance represents slightly over 25 percent of the annual budgeted expenditures, and generally would be considered healthy, we want you to be alert to the downward trend over the past few years. At June 30, 2000, the City's General Fund's Fund Balance was over \$956,000. This is a reduction over the past four years of nearly 50 percent. The reduction in the most recent year, as indicated above, was \$187,503. At that rate of reduction, the City would be in very strained financial condition within the next couple of years.

As you are well aware, there has been substantial pressure on the State of Michigan's budget which has resulted in reductions in estimated state shared revenues. Additionally, the City is at its Headlee rolled back maximum authorized millage, meaning the City has no millage capacity. The growth in property tax revenue for the most part will be limited to growth in taxable valuation due to increases in the value of properties, which is quite limited as the result of Proposal A, and new and renovated property being added to the tax rolls.

Based on our review of the most recent actuarial valuation, it appears that over the next two years, the City's contribution will approximately double from the level it has been for the past two years. This is an increase of approximately \$50,000.

We are also aware that the City's contract with the Tri-City Fire Department will require a contribution of just over \$194,000 for fiscal 2005 as compared to the 2004 contribution of approximately \$159,000. This is an increase of \$35,000, or approximately 22 percent.

As the result of the above, it becomes imperative that the City's financial reporting system and budget monitoring system be improved beyond where it has been so that the management team and the Mayor and City Council will have the tools to monitor and control finances and to provide early warning system if there appears to be revenue shortfalls or other unplanned variances.

INTERNAL CONTROL STRUCTURE

The concept of "internal control structure" relates to the system of checks and balances intended to safeguard assets and ensure reliability of the accounting data. The City's policies and procedures that have been put into place, the accounting system, and the environment that the City operates in all interact and together form the internal control structure.

In planning and performing our audit of the financial statements of the City of Keego Harbor as of June 30, 2004, we considered the City's existing internal control structure in order to determine the nature and extent of auditing procedures for the purpose of expressing an opinion on the financial statements and not provide assurance on the system of internal control. However, we noted the certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control system that in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management, in the financial statements.

During the beginning of the fiscal year, primarily July 2003 through February 2004:

- Bank and investment accounts were not being reconciled on a timely basis. A timely, accurate reconciliation must be consistently performed on all significant cash and investment accounts of the City and is part of a sound internal control system.
- The general ledger was not being maintained on a monthly basis. Specifically, receivable and payable balances were not reviewed and adjusted during the course of the year. As a result, accurate monthly reports were not being prepared for the City council or the management team of the City.
- The person responsible for making journal entries should not be primarily responsible for cash collections from customers or making deposits at the bank. The record keeping would normally be the responsibility of the City Clerk (general journal entries) and deposits are normally the responsibility of the City Treasurer. The lack of appropriate segregation of duties is a material weakness in the City's internal control system.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level of risk that errors or irregularities in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assign functions

Our consideration of the internal control system would not necessarily disclose all matters in the internal control system that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness as defined above. However, we consider the lack of timely reconciliation procedures for the bank accounts and the lack of maintenance of the general ledger on a monthly basis to be a material weakness in the City's internal control system.

INTERNAL CONTROL STRUCTURE (CONTINUED)

As indicated above, the conditions described occurred primarily at the beginning of the fiscal year. There has been substantial progress on correcting the above items subsequent to the hiring of the new treasurer in February 2004, however, it has been a considerable task of catching up and correcting transactions for the period July 1, 2003 through January 31, 2004. Although there has been substantial improvement in the past several months, there is still significant room for improvement.

GENERAL ACCOUNTING/REPORTING ITEMS

Building Bond Deposits

As reported in the prior two years' audits, the City does not have a detailed building bond deposit listing that agrees to the general ledger. One of the most basic checks and balances is the ongoing maintenance of a subsidiary ledger and a monthly reconciliation of the detailed listing of building bonds payable to the general ledger.

Pay Increases

As part of our audit, we review the personnel files of several individuals to determine whether the rate they are being paid has been approved by City management or City Council. During the current and prior audit, we noted that for the city employees selected for our tests, that their personnel file did not contain documentation supporting the rates paid to those staff. We recommend that the City review personnel files and update the pay rates contained therein. Proper authorization for these rates should also be maintained in these files.

Interfund Activity

Several monthly transactions occur throughout the year, which create interfund receivables/payables. These interfunds should be reconciled at the end of each month and the associated funds transferred. This should help the City better track the cash and investment balances available in each fund on a monthly basis.

Property Taxes

Debt Levy- In last year's audit, we mentioned that State law limits the amount of property taxes a municipality can levy, related to voter-approved bonds, to an amount necessary to pay for the next fiscal year's debt service requirements. The amount of property taxes necessary to pay for the next fiscal year's debt service requirements should be determined through consideration of the amount of beginning fund balance, anticipated interest earnings, and the amount of property taxes to be collected, including an estimate of delinquent property taxes.

Property Taxes (Continued)

In addition, there are questions on the Municipal Finance Qualifying Statement that are designed to facilitate the Michigan Department of Treasury in their monitoring of this limit. If the amount of fund balance in these debt service funds exceeds 150% of the next year's principal and interest, the municipality will not qualify to issue municipal obligations without further approval from the State Department of Treasury. A year ago, the City was dangerously close to being in violation of this limit.

During the year just completed, the City did a better job by addressing this situation and lowered the amount of property taxes it levied as part of the 2003 tax levy. As a result, the fund balance of the Fire Bond Debt Service Fund was reduced to be the equivalent of approximately one year's debt service requirement. As the result of the action taken with the July 1, 2003 levy, the City appears to have less than 150% of the next year's principal and interest in fund balance in its debt service funds. Accordingly, the City should be in compliance with this requirement.

It is important that when planning each year's tax levy the City should take into account the carryover fund balance and anticipated interest earnings when calculating the millage rate, and reducing the millage rate as necessary.

Delinquent Personal Property Taxes - Currently, delinquent personal property tax listings are not maintained by the City. Once a year the City confirms with the county the amount of delinquent personal property taxes on the county's records and relies on the county to collect these delinquencies. We recommend that the City maintain this information and use the County's records as a check figure to verify the status of delinquent personal property taxes.

ACH Arrangements

Last year we reported to you on Public Act 738 which had recently been adopted, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted. During the year, a policy was adopted by the City. Two elements of the policy were not adhered to, 1) The policy required that a list of vendors be developed and 2) the form used to document approval of the transactions be signed by the City Manager.

Purchasing Policy

During our audits in each of the last two years, we noted that there is no formalized purchase policy. We recommend that the City draft a formal document, which describes the process for initiating purchases and the dollar thresholds requiring differing levels of approval. The document should also describe the dollar threshold of items that require informal and formal bids, as well as the number of bids to be taken.

Cass Lake Road Project

At the end of our audit of the year ended June 30, 2003, we discussed the Cass Lake Road project which had not been finalized by the Road Commission of Oakland County. When we arrived to conduct our audit of the current year, the issue had been addressed by the City Manager, who had obtained an e-mail from a staff member at the Road Commission who indicated that she was not aware of any additional liability to the City of Keego Harbor. Due to the significance of the project, we encouraged the City Manager to obtain a final sign off and/or accounting from the Road Commission at a level authorized to release the City from any further liability.

Subsequent to our audit fieldwork, we understand that the City Manager has obtained a letter from a higher level Road Commission official which indicates that the City may have a balance due of \$350,000. When the City has come to a final agreed upon amount, that will allow the City the flexibility to plan the use of remaining monies for other priority projects.

Non-Motorized Improvements

Section 10k of Act 51 requires recipients of Michigan Transportation Fund revenues to spend an average (over a 10 year period) of not less than 1 percent of these revenues on non-motorized transportation services and facilities. We reviewed the June 30, 2002 and 2003 Act 51 reports, and determined that it might be possible that the City may not meet this requirement. Noncompliance with this requirement may result in the withholding of Michigan Transportation Fund payments.

Typically, municipalities whose annual financial report demonstrates noncompliance will be notified by letter. This letter will instruct the municipality to 1) develop a plan of project expenditures which will return the community to compliance within three years, and 2) have the plan approved by MDOT's Nonmotorized Transportation Coordinator and the municipalities governing body. We recommend the City review its spending on nonmotorized improvements and determine whether or not it is in compliance with this requirement as possible to avoid any withholding of payments.

Defined Benefit Pension Plan

As a result of poor market performance and increasing costs, the City's pension plan actuarial valuation at December 31, 2003 calculates the City now has an unfunded actuarially accrued liability of approximately \$637,536. By comparison, this unfunded liability was \$272,340 a year earlier. As a result, the City's required employee contribution will likely increase over the next several years. For the years ended June 30, 2003 and 2004, the City's required contribution was approximately \$50,000 and \$56,000 respectively. For the years ended June 30, 2005 and 2006, the required contributions are actuarially calculated to be \$62,880 and \$100,788, respectively. For the year beginning July 1, 2005, the required contribution will be approximately double, or \$44,000 - \$50,000 higher than for the years 2003 and 2004.

Reminder - Municipal Finance Act Revisions

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a qualifying filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end and is effective for one year thereafter.

We would like to thank the City Council and all City personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink, appearing to read "Leslie J. Pulver". The signature is fluid and cursive, with the first name "Leslie" being more prominent.

Leslie J. Pulver